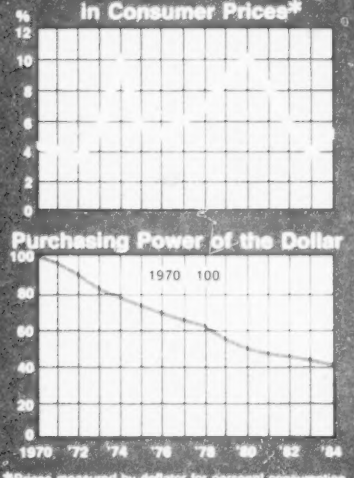
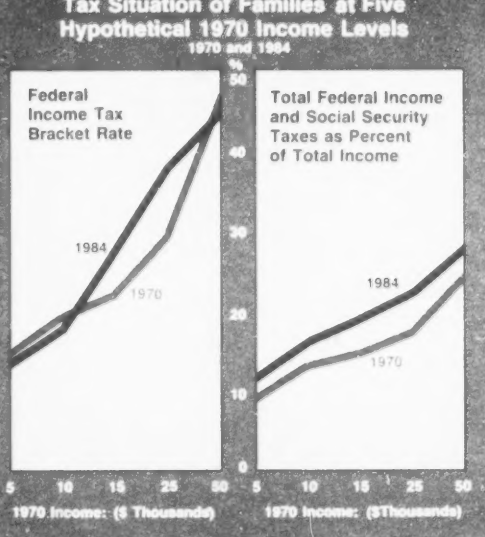
THE CONFERENCE BOARD

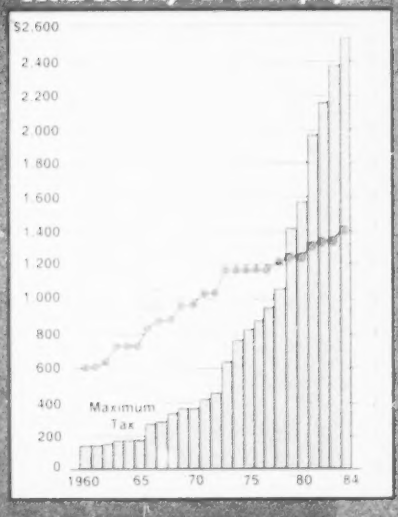
The Two-Way Squeeze, 1984

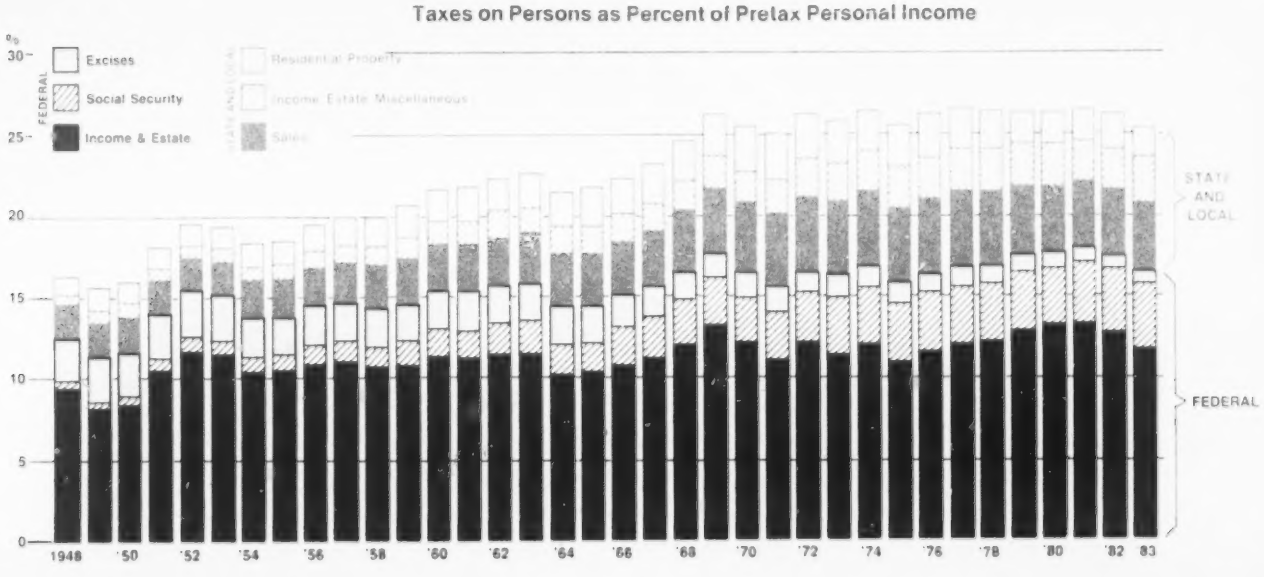
Economic Road Maps
No. 1970 April, 1984

Inflation in 1984 is expected to be moderately above last year's rate, but still vastly below the pace of several years before. In the calculations presented here, a 5% rise in the consumer price level is projected for 1984, compared with 3.9% in 1983 and 8% to 10% in 1979-1981. Even so, a dollar in 1984 will have only 41% of the purchasing power that a dollar had in 1970 (charts below left). If a family had a $10,000 income in 1970—about the average then—it needs $25,048 this year to have the same real after-tax purchasing power it had then. The share of this hypothetical family's income taken by federal income taxes has dropped from 9.9% in 1970 to 9.4% this year, but Social Security taxes have gone from 3.7% to 7.0% (charts below center). The family's federal income-tax bracket rate has dropped from 15% to 14%. These calculations are for federal taxes only, since state-local taxes vary greatly among jurisdictions. However, the bottom chart on this page shows that, nationwide, the average 1983 state-local tax burden on personal income was roughly half the federal (8.8% against 16.5%).









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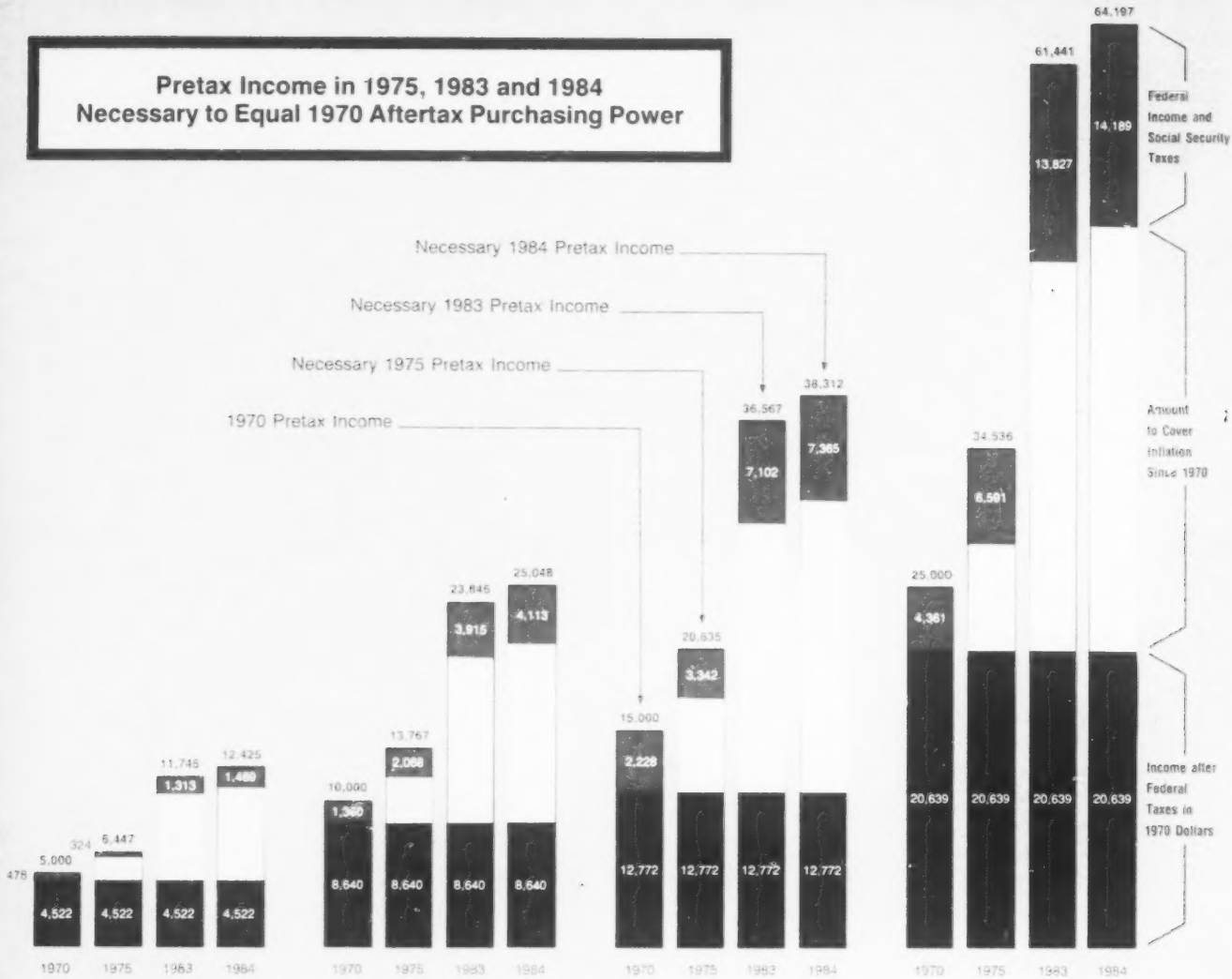
Pretax Income in 1975, 1983 and 1984 Necessary to Equal 1970 Aftertax Purchasing Power



1970 PRETAX INCOME	$ 5,000	$10,000	$15,000	$25,000	$ 50,000
Less: Federal income tax	238	360	1,884	3,987	11,982
Less: Social security tax	240	474	474	474	474
Equals: Income after federal taxes	4,522	8,640	12,772	20,639	37,644
1975 NECESSARY PRETAX INCOME	6,447	13,767	20,635	34,536	70,392
Less: Federal income tax	83	1,263	2,517	5,766	18,597
Less: Social security tax	377	805	825	825	825
Less: Amount to cover inflation since 1970	1,601	3,059	4,521	7,306	13,326
Equals: Income after federal taxes, in 1970 dollars	4,522	8,640	12,772	20,639	37,644
1983 NECESSARY PRETAX INCOME	11,745	23,846	36,567	61,441	121,979
Less: Federal income tax	500	1,957	3,776	11,436	32,742
Less: Social security tax	767	1,546	2,533	2,533	2,533
Less: Amount to cover inflation since 1970	5,977	11,343	16,643	26,975	44,201
Equals: Income after federal taxes, in 1970 dollars	4,522	8,640	12,772	20,639	37,644
1984 NECESSARY PRETAX INCOME	12,425	25,048	38,312	64,197	126,366
Less: Federal income tax	599	2,360	4,832	11,656	32,622
Less: Social security tax	870	1,753	2,533	2,533	2,533
Less: Amount to cover inflation since 1970	6,434	12,295	18,175	29,369	53,564
Equals: Income after federal taxes, in 1970 dollars	4,522	8,640	12,772	20,639	37,644

Federal income and social security taxes are calculated on the basis of current rates and exemptions. Tax liabilities are computed on the basis of income after deductions for personal exemptions and the standard deduction. Social security taxes are calculated on the basis of wage and salary income only. Amounts to cover inflation since 1970 are calculated on the basis of the percentage increase in the Consumer Price Index between 1970 and the year specified. Figures may not add because of rounding.

Sources: Bureau of Economic Analysis, Internal Revenue Service, The Conference Board

Lora S. Collins